

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 534 – SB 1221

March 7, 2017

**SUMMARY OF ORIGINAL BILL:** Changes, from July 25 to July 20, the deadline for a person who operates a motor vehicle in this state that is propelled by liquefied gas or compressed natural gas to submit to the Department of Revenue an annual report with certain travel information and to remit the liquefied gas and compressed natural gas user taxes due.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

**SUMMARY OF AMENDMENTS (003936, 004087, 004476):** Amendment 003936 deletes all language after the enacting clause. Enacts the *Improving Manufacturing, Public Roads and Opportunities for a Vibrant Economy (IMPROVE) Act*.

Increases motor vehicle registration fees for Class (A) through Class (H) vehicles by \$5.00 each. Imposes an additional motor vehicle registration and renewal fee of \$100.00 on electric vehicles, to be further increased biennially for inflation beginning on January 1, 2020. Increases registration fees for private and commercial motor vehicles operating for hire who transport passengers by \$10.00 each. Increases registration taxes for trucks and truck tractors by \$20.00 each.

Increases the gasoline tax rate from \$0.20 to \$0.27 per gallon, to be further increased biennially for inflation beginning on January 1, 2020. Requires all revenue generated from the gasoline tax rate increase be allocated as follows: 25.40 percent to counties (subject to certain restrictions); 12.70 percent to municipalities; and 61.90 percent to the Highway Fund.

Deletes the local gasoline tax option, codified in Tennessee Code Annotated Chapter 67, Title 3, Part 10, which authorized municipalities and counties to levy a local gasoline tax of \$0.01 per gallon to fund public transportation systems.

Increases the diesel tax rate from \$0.17 to \$0.29 per gallon, to be further increased biennially for inflation, beginning on January 1, 2020. Establishes that the diesel tax rate will remain \$0.17 for diesel fuel that is indelibly dyed and used by a commercial carrier to produce power for a means of transportation, as defined in the Transportation Fuel Equity Act. Requires all revenue generated from the diesel tax rate increase be allocated as follows: 17.50 percent to counties; 8.80 percent to municipalities; and 73.70 percent to the Highway Fund.

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Increases the liquified gas tax rate from \$0.14 to \$0.29 per gallon, to be further increased biennially for inflation, beginning on January 1, 2020. Requires all revenue generated from the liquified gas tax rate increase be allocated to the Highway Fund.

Increases the compressed natural gas tax rate from \$0.13 to \$0.28 per gallon, to be further increased biennially for inflation, beginning on January 1, 2020. Requires all revenue generated from the compressed natural gas tax rate increase be allocated to the Highway Fund.

Increases, from three to six percent, the surcharge or tax on charges for the retail rental of any private passenger motor vehicle, vehicle with a maximum gross weight of 26,000 pounds, or trailers for periods of 31 days or less when the vehicle is delivered to the renter in this state. Requires 50.00 percent of all revenue from the rental car tax be deposited to the General Fund, after an annual allocation of \$1,500,000 to the Department of Safety is made, with the remaining 50.00 percent deposited into the Highway Fund.

All of the tax and rate increases above are effective July 1, 2017.

Establishes the intent of the General Assembly that all revenues derived from the increased taxes and fees imposed by the IMPROVE Act on petroleum products, alternative fuels, rental of motor vehicles, and motor vehicle registrations, shall be used to:

- Maintain roads and bridges on the state highway system, including the interstate highway system;
- Support economic development through the construction of transportation facilities in accordance with the State Industrial Access Act and the Local Interstate and Fully Controlled Access Highway Connector Act;
- Maintain public roads and bridges within the boundaries of the state parks;
- Support local government investment in transit programs to improve regional transit services across the state and help manage congestion along major highways;
- Assist rural transit providers in improving the efficiency of demand response services;
- Support projects and programs identified in the Department of Transportation's annual transportation improvement program; and
- Fund the development and construction of 962 projects specified in the IMPROVE Act.

Authorizes the Department of Transportation (TDOT) to recommend modifications of the project list, and requires the Department to report to the General Assembly, beginning on or before July 1, 2018, and annually thereafter, on the status of projects listed in the IMPROVE Act.

Authorizes local governments, as defined by the IMPROVE Act, to levy a surcharge on the same privileges subject to the following taxes, if the underlying local tax on such privileges is currently being collected: local option sales and use tax; business tax; motor vehicle tax; local rental car tax; tourist accommodation tax or hotel occupancy tax; residential development tax; local tourism development zone business tax; and property tax. Establishes that no such surcharge shall become effective unless a local government develops and adopts a transit improvement program, and unless it is approved by a majority of the number of registered voters of the local government. Defines "local government" as any county in the state or any city

having a population in excess of 165,000 according to the 2010 federal census or any subsequent federal censuses. Establishes that any surcharge shall be levied, collected, and administered in the same manner as the applicable underlying local tax, and authorizes the Department of Revenue (DOR) to keep an administrative fee of 1.125 percent of proceeds of any such surcharge that the Department will administer and collect. Requires revenue from the surcharge be used for costs associated with the planning, engineering, development, construction, implementation, administration, management, operation, and maintenance of public transit system projects that are part of a transit improvement plan.

Authorizes taxpayers whose principal business in Tennessee is manufacturing to elect to apportion their net worth, for franchise tax purposes, and their net earnings, for excise tax purposes, by multiplying them by a fraction, the numerator of which is the total receipts of the taxpayer in Tennessee during the taxable year and the denominator of which is the total receipts of the taxpayer from any location within or outside of the state during the taxable year. This authorization applies to tax years beginning on or after January 1, 2017. Establishes that a taxpayer's principal business in Tennessee is manufacturing if more than 50 percent of the revenue derived from its activities in this state is from fabricating or processing tangible personal property for resale and consumption off the premises.

Decreases, from 5.00 percent to 4.50 percent, the state sales tax rate on the retail sale of food and food ingredients. This tax rate decrease is effective July 1, 2017.

Decreases the Hall Income Tax (HIT) rate from 5.00 percent to 3.50 percent for tax years beginning on or after January 1, 2017. Requires, for any tax year that begins on or after January 1, 2017, and prior to January 1, 2018, that 3/7 of the taxes collected are allocated to cities and counties (instead of 3/8), and the remaining 4/7 (instead of 5/8) to the General Fund. Establishes legislative intent that the HIT rate be reduced to 2.00 percent for any tax year that begins on or after January 1, 2018, and prior to January 1, 2019, through enactment of a general bill during the second annual session of the 110<sup>th</sup> General Assembly.

Amendment 004087 deletes and replaces language of the bill as amended by amendment 003936 to: 1) remove the gasoline tax and diesel tax rate increases established by amendment 003936, including the proposed inflation-based tax rate adjustments to such taxes; and 2) allocate all revenue generated from the increase in the state sales and use tax from six percent to seven percent pursuant to Public Chapter 856 of the Public Acts of 2002 as follows: 75.0 percent to the General Fund; 16.6 percent to the Highway Fund; 5.6 percent to counties; and 2.8 percent to municipalities; such allocation shall not apply to revenue generated from the single-article tax rate of 2.75 percent.

Amendment 004476 adds language to the bill as amended by amendments 003936 and 004087 to establish that if the federal government elects to increase any taxes whose proceeds are allocated to the Federal Highway Trust Fund, the state tax on the sale or use of such products is to be reduced by an amount equal to the amount of the increase by the federal government minus the amount of the increase required to match federal-aid funding.

## **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

### **Increase State Revenue –**

**\$244,048,000/FY17-18 and Subsequent Years/Highway Fund  
\$141,000/FY17-18 and Subsequent Years/Motor Vehicle Account**

### **Decrease State Revenue –**

**\$30,238,000/FY16-17/General Fund  
\$515,814,200/FY17-18/General Fund  
\$517,586,400/Each Year FY18-19 through FY21-22/General Fund  
\$464,187,400/FY22-23 and Subsequent Years/General Fund**

### **Increase Local Revenue – Net Impact –**

**\$76,163,600/FY17-18  
\$66,757,800/Each Year FY18-19 through FY21-22  
\$94,958,800/FY22-23 and Subsequent Years**

**Other Fiscal Impact – To the extent the General Assembly further reduces the Hall Income Tax rate to two percent for tax year 2018 and subsequent years, until the tax is fully eliminated, through the enactment of a general bill during the second annual session of the 110<sup>th</sup> General Assembly, there would be an additional decrease in state revenue to the General Fund of \$53,399,000 and an additional decrease in local government revenue of \$28,201,000 in each year FY18-19 through FY21-22.**

**Secondary economic impacts may occur as a result of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.**

**Subsequent increases in state and local government revenue and state and local government expenditures are possible as a result of the Act's authorization for local governments to impose tax surcharges upon voters' approval, and as a result of future tax rate inflation-adjusted increases. Such subsequent fiscal impacts cannot be determined with reasonable certainty and are not accounted for in this fiscal analysis.**

**Due to multiple unknown factors, any impact on future funding to the Department of Transportation as a result of changes to the maintenance of funding provisions under the Highway Trust Fund cannot be quantified with reasonable certainty.**

**The Governor's proposed budget for FY17-18 recognizes a recurring increase in state revenue to the Highway Fund of \$278,570,000, on page A-12, and a recurring decrease in state revenue to the General Fund in the amount of \$207,756,000, on page A-38. The proposed budget further recognizes, on page A-28, a one-time decrease in General Fund revenue in FY16-17 in the amount of \$30,200,000.**

Assumptions related to the sales tax re-allocation:

- Under current law, pursuant to Tenn. Code Ann. § 67-6-103(c)(1), all revenue generated from the increase in the state sales and use tax rate from six percent to seven percent, pursuant to Public Chapter 856 of the Public Acts of 2002, is allocated to the General Fund.
- The one percent tax increase generated \$1,076,886,439 in revenue in FY15-16, all of which was deposited to the General Fund.
- The current Fiscal Review Committee staff estimates for sales tax growth rates are 4.3 percent for FY16-17 and 3.7 percent for FY17-18.
- Assuming the same growth rates for revenue generated from the one percent tax increase, FY17-18 collections are estimated to be \$1,164,750,679 [ $\$1,076,886,439 \times (1 + 4.3\%) \times (1 + 3.7\%)$ ]. This number is assumed to remain constant in subsequent years.
- The recurring increase in revenue to the Highway Fund is estimated to be \$193,348,613 ( $\$1,164,750,679 \times 16.6\%$ ).
- The recurring increase in local revenue is estimated to be \$65,226,038 for counties ( $\$1,164,750,679 \times 5.6\%$ ) and \$32,613,019 for municipalities ( $\$1,164,750,679 \times 2.8\%$ ), for a total recurring increase in local government revenue of \$97,839,057 ( $\$65,226,038 + \$32,613,019$ ).
- The recurring decrease in revenue to the General Fund is estimated to be \$291,187,670 ( $\$193,348,613 + \$97,839,057$ ).

Assumptions related to the motor vehicle registrations:

- Based on data provided by the DOR, it is estimated that, as of August 1, 2016, there were approximately 5,223,790 motor vehicles whose registration fees will increase by \$5.00 pursuant to this Act, 5,160 vehicles whose registration fees will increase by \$10.00 pursuant to the Act, and 385,239 vehicles whose registration fees will increase by \$20.00 pursuant to the Act.
- The recurring increase in state revenue to the Highway Fund is estimated to be \$33,875,330 [ $(5,223,790 \times \$5.00) + (5,160 \times \$10.00) + (385,239 \times \$20.00)$ ].
- Pursuant to Tenn. Code Ann. § 55-4-113(b), a 2.50 percent safety inspection fee is imposed upon vehicle registration taxes for certain freight motor vehicles registered pursuant to Tenn. Code Ann. § 55-4-113. These funds are allocated to the Department of Safety's Motor Vehicle Account.
- The safety inspection fee is estimated to apply to 282,000 vehicles; the resulting recurring increase in revenue to the Motor Vehicle Account is estimated to be approximately \$141,000 ( $282,000 \times \$20.00 \times 2.50\%$ ).

Assumptions related to the electric motor vehicle fee:

- There are approximately 2,500 electric and 25,000 hybrid-electric motor vehicles currently registered in Tennessee. These numbers are assumed to remain constant in subsequent years.
- The additional \$100 motor vehicle registration and renewal fee will be imposed on electric vehicles only; hybrid-electric vehicles will not be subject to the fee.

- The resulting recurring increase in state revenue to the Highway Fund is estimated to be \$250,000 ( $2,500 \times \$100$ ).
- The additional fee will not have a significant impact on the number of electric passenger motor vehicles registered in Tennessee.

Assumptions related to the liquified gas tax:

- Liquified gas tax collections were approximately \$97,000 in FY15-16, and are estimated to be approximately \$100,000 in FY17-18 and subsequent years under current law.
- Increasing the liquified gas tax rate by \$0.15 per gallon, from \$0.14 to \$0.29, is estimated to result in a recurring increase in liquified gas tax revenue to the Highway Fund of \$107,143 [ $(\$100,000 / \$0.14) \times \$0.15$ ].
- Quantity demanded for liquified gas will not decrease significantly as a result of the liquified gas tax rate increase.

Assumptions related to the compressed natural gas tax:

- Based on volatile historical tax collections data, it is estimated that compressed natural gas tax collections in FY17-18, under the current tax rate of \$0.13 per gallon, will be equal to the actual collections in FY15-16, or \$1,384,000. This number is assumed to remain constant in subsequent years under current law.
- Increasing the compressed natural gas tax rate by \$0.15 per gallon, from \$0.13 to \$0.28, is estimated to result in a recurring increase in compressed natural gas tax revenue to the Highway Fund of \$1,596,923 [ $(\$1,384,000 / \$0.13) \times \$0.15$ ].
- Quantity demanded for compressed natural gas will not decrease significantly as a result of the compressed natural gas tax rate increase.

Assumptions related to the rental car tax:

- Rental car tax collections were approximately \$8,800,000 in FY13-14, \$10,400,000 in FY14-15, and \$12,200,000 in FY15-16, with the FY16-17 year-to-date growth rate, as of December 31, 2016, of approximately negative 1.00 percent. These numbers, however, reflect tax collections after all deductions and credits, authorized by Tenn. Code Ann. § 67-4-1903, are taken into account.
- Based on the DOR's analysis of tax returns filed for the last three fiscal years, it is estimated that increasing the rental car tax rate from three to six percent will result in a recurring increase in tax collections of \$14,870,000. It is further estimated that all of this additional revenue will be deposited into the Highway Fund.
- Quantity demanded for rental cars will not decrease significantly as a result of the rental car tax rate increase.

Assumptions related to the Franchise and Excise tax:

- The estimate of the fiscal impact of the proposed changes to the F&E apportionment formula for Tennessee manufacturers is based on the DOR's static analysis of F&E tax returns for tax periods ending in 2015, adjusted for the anticipated timing of estimated

F&E tax payments, and further adjusted for any impact of the Revenue Modernization Act of 2015 that would occur under current law for tax years beginning on or after July 1, 2016, due to the Revenue Modernization Act's change of the apportionment formula from a double-weighted sales factor to a triple-weighted sales factor.

- The Fiscal Review Committee staff does not have access to this data and analysis and cannot independently verify their accuracy.
- The decrease in state revenue to the General Fund is estimated to be: \$30,238,000 in FY16-17; \$102,122,000 in FY17-18; and \$113,300,000 in FY18-19 and subsequent years.

Assumptions related to the sales tax on food and food ingredients:

- Based on sales tax collection data from the three most recent fiscal years (FY13-14, FY14-15, and FY15-16), state sales tax collections derived from the retail sale of food and food ingredients are estimated to be approximately seven percent of total state sales tax collections.
- The current Fiscal Review Committee estimate for total state sales tax collections in FY17-18 is \$8,940,000,000.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(c)(2), revenue generated from 0.5 percent of the sales tax rate on the retail sale of food and food ingredients shall be deposited in the state General Fund and earmarked for education purposes.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients are estimated to be \$625,800,000 ( $\$8,940,000,000 \times 7.0\%$ ) in FY17-18.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.1427 percent  $[(4.5\% / 5.0\%) \times 4.603\%]$ .
- Local revenue pursuant to the state-shared allocation is estimated to be \$25,925,017 ( $\$625,800,000 \times 4.1427\%$ ) in FY17-18. Net state revenue is estimated to be \$599,874,983 ( $\$625,800,000 - \$25,925,017$ ). These numbers are assumed to remain constant in subsequent years under current law.
- State sales tax collections derived from the retail sale of food and food ingredients are estimated to be \$563,220,000  $[(\$625,800,000 / 5.0\%) \times 4.5\%]$  in FY17-18 upon passage of this bill.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0916 percent  $[(4.0\% / 4.5\%) \times 4.603\%]$ .
- Local revenue pursuant to the state-shared allocation is estimated to be \$23,044,710 ( $\$563,220,000 \times 4.0916\%$ ) in FY17-18. Net state revenue is estimated to be \$540,175,290 ( $\$563,220,000 - \$23,044,710$ ). These numbers are assumed to remain constant in subsequent years under the provisions of this bill.
- The recurring decrease in state sales tax collections derived from the retail sales of food and food ingredients is estimated to be \$59,699,693 ( $\$599,874,983 - \$540,175,290$ ).
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$2,880,307 ( $\$25,925,017 - \$23,044,710$ ).

Assumptions related to the Hall Income Tax:

- Pursuant to Tenn. Code Ann. § 67-2-102, the HIT is a five percent tax on income derived from dividends on stock or from interest on bonds.
- Pursuant to Tenn. Code Ann. § 67-2-124, it is the legislative intent that the tax be reduced by one percent annually through enactments of general bills; the tax shall be eliminated for tax years beginning on or after January 1, 2022.
- It is assumed that, under current law, the HIT rate would remain at five percent until it is fully eliminated for tax years that begin on or after January 1, 2022.
- Given the proposed tax change shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of the HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity. Therefore, the proposed tax rate decrease will impact each fiscal year FY17-18 through FY21-22, as the HIT will be eliminated for tax years that begin on or after January 1, 2022 (FY22-23 and subsequent years).
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.50 percent of HIT revenue and local governments are apportioned 37.50 percent, after any deductions for necessary expenses are made for administration of the HIT by the DOR, pursuant to Tenn. Code Ann. § 67-2-117.
- Based on apportionments of HIT collections for the last three fiscal years (FY13-14, FY14-15, and FY15-16), it is estimated that the state retains 65.44 percent of HIT revenue and local governments are apportioned 34.56 percent, which is equivalent to 92.16 percent ( $34.56\% / 37.50\%$ ) of the specified rate after deductions for necessary administrative expenses.
- This Act will apportion 3/7, or 42.857 percent, of the HIT collection in FY17-18 to local governments (instead of 3/8), and the remaining 4/7, or 57.143 percent, (instead of 5/8) to the General Fund. The apportionments for FY18-19 through FY21-22 will remain the same as under current law, or 3/8 to the local government, and 5/8 to the General Fund.
- The effective rate of distribution to the local government under this bill will be 39.50 percent in FY17-18 ( $42.857\% \times 92.16\%$ ), and 34.56 percent in each fiscal year FY18-19 through FY21-22.
- The current Fiscal Review Committee staff estimate for HIT collections in FY17-18 is \$272,000,000, of which \$177,996,800 is the state portion ( $\$272,000,000 \times 65.44\%$ ), and \$94,003,200 is the local government portion ( $\$272,000,000 \times 34.56\%$ ). These numbers are assumed to remain constant under current law until the tax is fully eliminated in FY22-23.
- The decrease in HIT revenue for the state General Fund is estimated to be \$62,804,800 in FY17-18 [ $\$177,996,800 - (\$272,000,000 / 5.00\% \times 3.50\% \times (100.00\% - 39.50\%))$ ], and \$53,399,040 in each year FY18-19 through FY21-22 [ $\$177,996,800 - (\$272,000,000 / 5.00\% \times 3.50\% \times (100.00\% - 34.56\%))$ ].
- The decrease in HIT revenue for the local government is estimated to be \$18,795,200 in FY17-18 [ $\$94,003,200 - (\$272,000,000 / 5.00\% \times 3.50\% \times 39.50\%)$ ], and \$28,200,960 in each year FY18-19 through FY21-22 [ $\$94,003,200 - (\$272,000,000 / 5.00\% \times 3.50\% \times 34.56\%)$ ].

- To the extent that the General Assembly further reduces the HIT rate to 2.00 percent for tax years that begin on or after January 1, 2018, through enactment of a general bill during the second annual session of the 110th General Assembly, pursuant to the legislative intent established by this bill, there would be an additional decrease in state General Fund revenue of \$53,399,040, and an additional decrease in local government revenue of \$28,200,960 in each year FY18-19 through FY21-22.

Assumptions related to maintenance of funding under Highway Trust Fund:

- Under current law, pursuant to Tenn. Code Ann. § 67-3-206, if the federal government reduces or eliminates any taxes whose proceeds are allocated to the Federal Highway Trust Fund, the existing state tax imposed on the sale or use of such products is to be adjusted so as to maintain the amount of funding for the Tennessee Department of Transportation (TDOT) generated by the federal tax.
- If the federal government elects to increase any of such taxes after they have been reduced or eliminated, the state taxes are to be reduced equal to the amount of increase by the federal government.
- The proposed bill as amended requires that if the federal government increases any taxes whose proceeds are allocated to the Federal Highway Trust Fund, the state will reduce its applicable taxes in the amount equal to the amount of the increase by the federal government minus the amount of the increase required to match federal-aid funding.
- It is assumed that this requirement could result in the state reducing taxes when the federal government increases taxes, when such taxes have not previously been reduced or eliminated. In such instances there would be a decrease in revenue to TDOT.
- However, if any such reductions were to occur under current law, the proposed legislation would require the decrease to be less than it otherwise could have been as the state is authorized to deduct an amount of the increase required to match federal-aid funding.
- Due to multiple unknown factors, such as the timing and magnitude of any federal tax increase, the specific tax that would be impacted, and the tax rates of any state taxes that would be required to be reduced, any fiscal impact cannot be determined with reasonable certainty.

Assumptions related to net revenue impacts and expenditures:

- The total recurring increase in state revenue to the Highway Fund, beginning in FY17-18, is estimated to be \$244,048,009 (\$193,348,613 + \$33,875,330 + \$250,000 + \$107,143 + \$1,596,923 + \$14,870,000).
- The total recurring increase in Department of Safety's Motor Vehicle Account, beginning in FY17-18, is estimated to be \$141,000.
- The total decrease in state revenue to the General Fund is estimated to be: \$30,238,000 in FY16-17; \$515,814,163 in FY17-18 (\$291,187,670 + \$102,122,000 + \$59,699,693 + \$62,804,800); \$517,586,403 in each year FY18-19 through FY21-22 (\$291,187,670 + \$113,300,000 + \$59,699,693 + \$53,399,040); and \$464,187,363 in FY22-23 and subsequent years (\$291,187,670 + \$113,300,000 + \$59,699,693).

- The net increase in local government revenue is estimated to be: \$76,163,550 in FY17-18 (\$97,839,057 - \$2,880,307 - \$18,795,200); \$66,757,790 in each year FY18-19 through FY21-22 (\$97,839,057 - \$2,880,307 - \$28,200,960); and \$94,958,750 in FY22-23 and subsequent years (\$97,839,057 - \$2,880,307).
- Any increase in state or local expenditures to accomplish all of the requirements of the IMPROVE Act is estimated to be not significant.

Assumptions related to the local option transit surcharge and secondary impacts:

- Authorizing local governments, as defined by the IMPROVE Act, to levy a surcharge on the same privileges subject to the taxes specified in the Act, could result in a significant fiscal impact to state and local government. State and local revenue could increase as a result of additional surcharges imposed on taxpayers. State and local expenditures could increase as a result of additional referendum costs and additional tax enforcement and administration requirements.
- Due to multiple unknown factors, such as the number of local governments that will elect to levy a surcharge, the timing of any such levy, the type and magnitude of levied surcharges, and the taxable base for any surcharge, a precise fiscal estimate cannot be determined with reasonable certainty.
- There could be subsequent impacts on state and local government revenue and expenditures as a result of secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if out-of-state manufacturing businesses relocate their production within state boundaries due to the tax incentives provided by the Act, or if the state's population increases as a result of reduced HIT liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of the Act. Due to multiple unknown factors, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.
- Some portions of tax savings will be re-spent in the economy on sales-taxable goods and services. Some portions of tax increases would have been spent on sales-taxable goods and services in the absence of this bill. The net impact on state and local revenue of these two effects is estimated to be not significant.
- Deleting the local gasoline tax option, which authorized counties and municipalities to levy a local gasoline tax of \$0.01 per gallon to fund public transportation systems, will not result in a significant impact to local revenue as no local government has used this authority.
- There will be subsequent increases in state and local revenue as a result of future tax rate inflation adjustments that will occur beginning on January 1, 2020, and every second January 1, thereafter. Fiscal impacts of any such subsequent tax rate increases are not accounted for in this fiscal analysis.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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